



Saskatchewan
Finance

Annual Report 1999

Public Employees Group Life Insurance Fund

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Saskatchewan
Finance

Her Honour, The Honourable Dr. Lynda M. Haverstock
Lieutenant Governor of the Province of Saskatchewan
Government House
4607 Dewdney Avenue
Regina, Saskatchewan
S4P 3V7

Dear Madam:

Letter of Transmittal

I have the honour to transmit herewith the ninth Annual Report of the Public Employees Group Life Insurance Fund for the year ending December 31, 1999.

I have the honour to be, Madam,

Your obedient servant,

A handwritten signature in black ink, appearing to read 'Eric Cline', with a long horizontal line extending to the right.

Eric Cline
Minister of Finance



Saskatchewan
Public Employees
Benefits Agency

The Honourable Eric Cline
Minister of Finance
Regina, Saskatchewan

Sir:

Letter of Transmittal

On behalf of the Public Employees Benefits Agency, I have the honour to transmit herewith the ninth Annual Report of the Public Employees Group Life Insurance Fund for the year ending December 31, 1999.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Brian Smith", written over a horizontal line.

Brian Smith
Executive Director

INTRODUCTION

The Public Employees Group Life Insurance Plan was established on April 1, 1958.

The Plan provides comprehensive life insurance coverage to employees of Executive Government, several Crown Corporations and various Agencies, Boards and Commissions as approved by the Lieutenant Governor in Council.

Spouses and dependent children are also provided coverage under the Plan.

As at December 31, 1999 there were approximately 33,744 insured employees representing the following participating employer groups:

Agricultural Credit Corporation of Saskatchewan
Anti-Tuberculosis League Employees
Superannuation Plan (Superannuates)
Battlefords District Health Board - Battlefords
Regional Care Centre
Board of Arbitration under *The Surface Rights Acquisition and Compensation Act* (The)
Board of the Saskatchewan Centre of the Arts
Cafeteria Board of Saskatchewan
Canadian Labour Congress Local 481
(Saskatchewan Government Employees
Union, Union Office employees)
Children's Advocate
Crown Investments Corporation of
Saskatchewan
Farm Land Security Board
Horned Cattle Fund
Information and Privacy Commissioner
Judges of the Provincial Court
Judges of the Provincial Court Superannuation
Plan (superannuates)
Legislative Assembly (Members of the)
Legislative Assembly Office (Employees of the)
Legislative Library (Employees of the)
Liberal Caucus Office
Liquor and Gaming Authority
Meewasin Valley Authority
Members of the Legislative Assembly
Superannuation Plan (superannuates)
Milk Control Board
National Print It Centre
NDP Caucus Office
New Careers Corporation
Office of the Information and Privacy
Commissioner
Office of the Leader of the Opposition

Office of the Legislative Counsel and Law Clerk
(Employees of the)
Office of the Ombudsman
Office of the Provincial Auditor
North Central District Health Board - Parkland
Regional Care Centre
Power Corporation Superannuation Plan
(superannuates) (The)
Power Greenhouses Inc.
Public Employees Pension Plan
(Pensioners)
Public Service of Saskatchewan as defined by
The Public Service Act
Public Service Superannuation Plan
(superannuates)
Regina District Health Board - Regina General
Hospital
Saskatchewan Archives Board
Saskatchewan Arts Board
Saskatchewan Assessment Management
Agency
Saskatchewan Cancer Agency
Saskatchewan Communications Network
Corporation
Saskatchewan Crop Insurance Corporation
Saskatchewan Government Insurance
Saskatchewan Health Information Network
Saskatchewan Human Rights Commission
Saskatchewan Institute of Applied Science and
Technology
Saskatchewan Municipal Board
Saskatchewan Party Caucus
Saskatchewan Power Corporation
Saskatchewan Property Management
Corporation
Saskatchewan Telecommunications Holding
Corporation
Saskatchewan Telecommunications
Superannuation Plan (superannuates)
SaskEnergy Incorporated
SGI Canada Insurance Services Limited
South Central District Health Board - Souris
Valley Regional Care Centre
South Saskatchewan River Irrigation District #1
St. Louis Alcoholism Rehabilitation Centre
Swift Current District Health Board - Palliser
Regional Care Centre
Tourism Authority
TransGas Limited
Wakamow Valley Authority
Wanuskewin Heritage Park Corporation
Wascana Centre Authority
Western Development Museums
Weyerhaeuser
Workers' Compensation Board (The)

Workers' Compensation Board Superannuation
Plan (The) (superannuates)

OPERATION OF THE PLAN

Administration

The Public Employees Group Life Insurance Plan is underwritten on a cost-plus basis and is managed by the Public Employees Benefits Agency, Saskatchewan Finance.

The Co-operators Life Insurance Company under Group Policy G.1100 (Life) provides claims adjudication and benefit payment services to the Plan.

Investment Management Services

The Minister of Finance is authorized to invest money of the Group Life Insurance Fund in any securities authorized for investment under the "Investment Policy Guidelines".

The Co-operators Investment Counselling Limited invests the monies of the Fund under a contract to provide services. The Fund pays management fees to the Co-operators Investment Counselling Limited.

Funding

Funding for the Plan is comprised of employee and employer paid insurance premiums based on salary and the age, gender and smoker status of the employee.

Premiums/Claims Experience

	<u>Dec. 31, 1999</u>	<u>Dec. 31, 1998</u>
Premiums	\$9,174,167	\$8,240,145
Claims	\$7,030,085	\$6,599,255
# Claims		
- Employee	70	83
- Dependent	47	56

MANAGEMENT'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

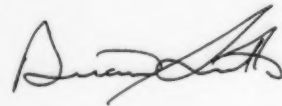
As members of management of the Public Employees Group Life Insurance Fund, we are responsible for the preparation and presentation of the following financial statements in accordance with the generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The significant accounting policies adopted in the preparation of the financial statements are fully and fairly disclosed in the financial statements.

The report of a valuation actuary on the provision for life insurance benefits of the Fund, made in accordance with accepted actuarial practices and using assumptions adopted by management, has been used in the preparation of the financial statements.

We believe the Public Employees Group Life Insurance Fund has a system of internal control adequate to provide reasonable assurance that the accounts are faithfully and properly kept to permit the preparation of accurate financial statements in accordance with the disclosed basis of accounting.

We enclose the financial statements of the Public Employees Group Life Insurance Fund for the year ended December 31, 1999 and the Provincial Auditor's report on these financial statements.



Brian Smith
Executive Director
Public Employees Benefits Agency



Perry Bahr
Director, Benefit Programs
Public Employees Benefits Agency

Regina, Saskatchewan
February 24, 2000

PUBLIC EMPLOYEES GROUP LIFE INSURANCE FUND

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1999

AUDITOR'S REPORT

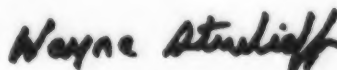
To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of financial position of the Public Employees Group Life Insurance Fund as at December 31, 1999 and the statements of operations and net assets and cash flows for the year then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Regina, Saskatchewan
February 24, 2000



Wayne Strelloff, CA
Provincial Auditor

**PUBLIC EMPLOYEES GROUP LIFE INSURANCE FUND
STATEMENT OF FINANCIAL POSITION**

STATEMENT 1

AS AT DECEMBER 31

	<u>1999</u>	<u>1998</u>
ASSETS		
Current Assets:		
Cash	\$ 80,796	\$ 3,321
Accounts receivable (Note 8)	699,088	689,724
Due from Co-operators Life Insurance Company	38,270,368	35,643,899
Receivable from Co-operators Life Insurance Company (Note 8)	<u>690,623</u>	<u>313,644</u>
Total assets	<u>\$39,740,875</u>	<u>\$36,650,588</u>
 LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable (Note 8)	\$ 237,410	\$ 242,047
Claims payable (Note 8)	<u>692,105</u>	<u>1,195,130</u>
	929,515	1,437,177
Payable to SaskPower (Note 4)	274,135	262,436
Provision for life insurance benefits (Note 3)	21,884,900	16,103,000
NET ASSETS (Statement 2)	<u>16,652,325</u>	<u>18,847,975</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$39,740,875</u>	<u>\$36,650,588</u>

(See accompanying notes to the financial statements)

**PUBLIC EMPLOYEES GROUP LIFE INSURANCE FUND
STATEMENT OF OPERATIONS AND NET ASSETS**

STATEMENT 2

YEAR ENDED DECEMBER 31

	1999		1998
	Budget (Note 9)	Actual	Actual
REVENUE			
Premiums	\$ 8,446,000	\$ 9,174,167	\$ 8,240,145
Investment income	<u>3,000,000</u>	<u>2,032,346</u>	<u>1,807,525</u>
	<u>11,446,000</u>	<u>11,206,513</u>	<u>10,047,670</u>
EXPENSE			
Claims	6,765,000	7,030,085	6,599,255
Change in provision for life insurance benefits	-	5,781,900	637,000
Revolving Fund administration (Note 5(a))	256,294	183,339	149,684
Premium taxes - General Revenue Fund	169,000	164,201	143,307
Adjudication fees	170,000	157,557	143,971
Management fees (Note 5(b))	<u>85,000</u>	<u>85,081</u>	<u>81,616</u>
	<u>7,445,294</u>	<u>13,402,163</u>	<u>7,754,833</u>
(Deficit) surplus for the year	4,000,706	(2,195,650)	2,292,837
NET ASSETS, BEGINNING OF YEAR	<u>18,847,975</u>	<u>18,847,975</u>	<u>16,555,138</u>
NET ASSETS, END OF YEAR - Statement 1	<u>\$22,848,681</u>	<u>\$16,652,325</u>	<u>\$18,847,975</u>

(See accompanying notes to the financial statements)

**PUBLIC EMPLOYEES GROUP LIFE INSURANCE FUND
STATEMENT OF CASH FLOWS**

STATEMENT 3

YEAR ENDED DECEMBER 31

	<u>1999</u>	<u>1998</u>
Cash flows from operating activities:		
(Deficit) surplus for the year	\$(2,195,650)	\$ 2,292,837
Adjustments for:		
Investment income	(2,032,346)	(1,807,525)
Change in non-cash working capital:		
(Increase) in accounts receivable	(9,364)	(85,344)
(Increase) in receivable from		
Co-operators Life Insurance Company	(376,979)	(37,937)
(Decrease) in accounts payable	(4,637)	(3,666)
(Decrease) increase in claims payable	(503,025)	(257,857)
Increase in payable to SaskPower	<u>11,699</u>	<u>262,436</u>
	(5,110,302)	362,944
Increase in provision for life insurance benefits	<u>5,781,900</u>	<u>637,000</u>
Cash flows from operating activities:	<u>671,598</u>	<u>999,944</u>
Cash flows from investing activities:		
Purchase of segregated fund units	<u>(594,123)</u>	<u>(1,004,309)</u>
Net increase (decrease) in cash	77,475	(4,365)
CASH, BEGINNING OF YEAR	<u>3,321</u>	<u>7,686</u>
CASH, END OF YEAR	<u>\$ 80,796</u>	<u>\$ 3,321</u>

(See accompanying notes to the financial statements)

**PUBLIC EMPLOYEES GROUP LIFE INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 1999

1. Description of Fund

The Public Employees Group Life Insurance Fund (PEGIF) is a special purpose fund used to account for the premiums, claims, investment and certain administrative transactions of the Group Life Insurance Plan (Plan) under subsection 64(2) of *The Financial Administration Act, 1993*.

This Plan is managed by the Public Employees Benefits Agency (PEBA) and provides comprehensive life insurance coverage to certain members of the public service of the Province of Saskatchewan and other Saskatchewan Crown agencies, whose participation in the Plan has been approved by the Lieutenant Governor in Council. The Plan is administered under the terms of an agreement with The Co-operators Life Insurance Company.

Claims are adjudicated and processed for payment by the Co-operators Life Insurance Company.

2. Significant Accounting Policies

The financial statements are prepared in accordance with generally accepted accounting principles. The following accounting policies are considered significant.

a) Accrual Basis

The financial statements are prepared on the accrual basis of accounting.

b) Due from Co-operators Life Insurance Company (Co-operators)

According to the agreement between PEBA and Co-operators, Co-operators has established a segregated fund for the investment of PEGIF's monies. The PEGIF's units in the fund represents a debt due by Co-operators. This debt is represented by the segregated fund.

The segregated fund is valued at market and any increase/decrease in the value of the segregated fund is accounted for in the statement of operations and net assets as investment income.

Fair value of the segregated fund approximates its market value.

c) Provision for Life Insurance Benefits

The provision for life insurance benefits represents the present value of future payments arising from benefits for disabled employees whose premiums have been waived. The provision includes the present value of the retirement death benefit certificates for those having retired prior to year-end. The present value is determined pursuant to an actuarial valuation. Any resulting change in the liability pursuant to the valuation is recognized as a revenue or expense item in that year's operations.

d) Claims Expense

Claims expense includes future payments arising from claims made prior to the year-end.

e) Cash and Cash Equivalents

Cash consists of balances with the bank.

3. Actuarial Valuation

An actuarial valuation was performed by Aon Consulting Inc. as at December 31, 1999 and by William M. Mercer Limited as at December 31, 1998 to value the liability of making future benefit payments to disabled members whose premiums have been waived prior to year end and the retirement death benefit certificates for those members having retired prior to year end. The valuation determined the liability was \$21,884,900 at December 31, 1999 (1998 - \$16,103,000). Of the \$21,884,900 liability, \$6,451,100 is for retirement death benefit certificates and the remainder is for waived premiums.

The valuation is based on the following assumptions: 1) the life waiver valuation is based on the 1970 Group Life Waiver Valuation Table for recovery and 150% of the 1993 Canada Pension Disabled Life Mortality Experience Table for death rates; 2) the interest rate assumed is 6.25%; 3) the mortality rates of existing retirees are based on the Canadian Life 1990-92 tables; 4) a maximum 3% consumer price indexing of future benefit payments to disabled members whose life insurance premiums have been waived; 5) the inflation rate assumed is 2% for the first three years and 3% thereafter. The actual increase will be the same percentage, subject to a maximum of 3% per annum, as the percentage increase in the Consumer Price Index.

If the valuation assumed no cost of living allowance indexing of disability benefits each year, the liability at December 31, 1999 would be \$19,363,500 (1998 - \$14,991,000).

The liability for future benefits to disabled members whose premiums have been waived prior to year end and the retirement death benefit certificates for those members having retired prior to year end are based on a number of assumptions about future events including: recovery and mortality rates and interest rates. The actual experience may vary significantly from the assumptions used.

The following illustrates the effect of changes in the interest rate and mortality on retirement death benefit certificates:

- a 1% change in the interest rate equals a 14.7% change in the liability including the cost of living adjustment
- a 10% change of the Group Life Insurance mortality equals a 4.1% change in the liability

The following illustrates the effect of changes in the interest rate, cost of living adjustment and mortality on group life waivers:

- a 1% change in the interest rate equals a 6.3% change in the liability including the cost of living adjustment
- a change in the cost of living adjustment of 1% equals a 5.9% change in the liability
- a change of waiver mortality by 10% equals a 6.6% change in the liability

The liability is long term in nature. Management has no intention of settling its obligation in the near term. Therefore it is not practical to determine the fair value of this liability.

4. Retirement Death Benefit Certificate

Effective January 1, 1991, PEGIF began issuing a \$3,000 paid up life insurance policy (Retirement Death Benefit Certificate) to retired employees of this plan. The value was increased to \$5,000 effective April 1, 1993 for those individuals retiring on or after this date.

SaskPower, SaskEnergy, SGI, Sask Property Management Corp. and the public service in conjunction with CUPE 600 provide a \$10,000 paid up life insurance policy to their employees. Additional premiums are submitted for this enhanced benefit.

The paid up certificate remains in force and has no cash value until the employee's death, at which time the face value is payable to the designated beneficiary.

The liability for the paid up policies is included in the provision for life insurance benefits liability shown in the statement of financial position, with the exception of the enhanced portion of the paid up policy of SaskPower. PEGIF has an agreement with SaskPower transferring the liability to the corporation effective 1998. PEGIF continues to collect premiums and pay claims on the corporation's behalf. Accordingly, a trust fund payable to SaskPower exists as the current activity to date has premiums exceeding claims.

5. Administration Expenses

a) Public Employees Benefits Agency Revolving Fund

The costs of administering the Public Employees Group Life Insurance Fund are a charge on and paid out of that Fund. These expenditures are paid to the Public Employees Benefits Agency Revolving Fund.

b) Investment Management Services

The Minister of Finance is authorized to invest money of the Group Life Insurance Fund in any securities authorized for investment under the "Investment Policy Guidelines".

The Co-operators Investment Counselling Limited invests the monies of the Fund under a contract to provide services. The Fund pays management fees to the Co-operators Investment Counselling Limited.

6. Investment Performance

The following is a summary of the Fund's investment performance:

	<u>1999</u>	<u>Four year annualized return</u>
Fund (a)	5.5%	11.2%
Benchmark (b)	7.9%	11.7%

(a) The annual returns are before deducting investment expenses.

(b) The benchmark return is the Fund's target rate of return for its segregated fund. The benchmark return is calculated using actual returns and the Fund's planned investment portfolio for its segregated fund.

7. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Fund by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises

subject to joint control and significant influence by the Government of Saskatchewan collectively referred to as "related parties".

Due to the nature of the Fund, all premiums have been received from related parties.

At year-end, the accounts receivable and accounts payable are due to/from related parties.

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and notes thereto.

8. Accounts Receivable/Accounts and Claims Payable/ Receivable from Co-operators Life Insurance Company

These financial instruments are non-interest bearing and are due or payable within the next year. Due to this short-term maturity, the fair value of these financial instruments approximates carrying value. The Fund is exposed to minimal credit risk from the potential non-payment of accounts receivables.

9. Budget

The Fund submitted the budget to Treasury Board.

10. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using the year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.